

## CREDIT OPINION

1 June 2016

### New Issue

Rate this Research >>

#### Contacts

Heather Guss 617-535-7693  
*Analyst*  
 heather.guss@moody's.com

Nicholas Lehman 617-535-7694  
*Assistant Vice President*  
 nicholas.lehman@moody's.com

## Swampscott (Town of) MA

New Issue - Moody's Assigns Aa2 to Swampscott, MA's \$3.7M GO Bonds

### Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to the Town of Swampscott, MA's \$3.7 million General Obligation Municipal Purpose Loan of 2016 Bonds. Concurrently, Moody's has affirmed the Aa2 rating on \$26.8 million of outstanding general obligation debt.

The Aa2 rating reflects the town's improving financial position with sound reserves, moderately sized tax base with above-average wealth, and manageable debt and pension burdens

### Credit Strengths

- » Above average socioeconomic indices
- » Strong voter support for school projects

### Credit Challenges

- » Debt burden will increase due to planned elementary school renovations

### Rating Outlook

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

### Factors that Could Lead to an Upgrade

- » Trend of large surpluses leading to significant growth of reserves
- » Material growth and diversification in the tax base
- » Material improvement in wealth levels

### Factors that Could Lead to a Downgrade

- » Trend of operating deficits resulting in reserve declines
- » Significant declines in the tax base or deterioration of the demographic profile
- » Material growth in debt burden

## Key Indicators

Exhibit 1

Swampscott (Town of) MA	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 2,444,604	\$ 2,444,604	\$ 2,370,987	\$ 2,370,987	\$ 2,380,320
Full Value Per Capita	\$ 177,312	\$ 177,312	\$ 169,951	\$ 169,187	\$ 171,098
Median Family Income (% of US Median)	168.0%	180.6%	175.3%	183.8%	183.8%
Finances					
Operating Revenue (\$000)	\$ 52,537	\$ 55,387	\$ 55,720	\$ 59,262	\$ 59,802
Fund Balance as a % of Revenues	10.2%	10.8%	10.8%	11.6%	14.5%
Cash Balance as a % of Revenues	12.6%	12.2%	13.4%	14.7%	20.3%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 37,093	\$ 36,033	\$ 38,777	\$ 34,690	\$ 33,575
Net Direct Debt / Operating Revenues (x)	0.7x	0.7x	0.7x	0.6x	0.6x
Net Direct Debt / Full Value (%)	1.5%	1.5%	1.6%	1.5%	1.3%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	1.0x	1.1x	1.2x	1.3x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	2.2%	2.6%	3.1%	3.3%

As of June 30 fiscal year end

Full Value = Equalized Value

Source: Moody's Investors Service

## Detailed Rating Considerations

### Economy and Tax Base: Residential Tax Base with Above Average Wealth

The moderately-sized \$2.4 billion tax base will grow modestly over the medium term due to strong home values and some new residential development. Located approximately 15 miles north of Boston (Aaa stable), equalized value (EV) began to stabilize in fiscal 2015 following declines during the recession. 2015 EV increased 0.4%, an improvement over the previous two periods when values fell 11.9% (fiscal 2011) and 3% (fiscal 2013). The town is largely built-out, and management projects new growth will decline slightly in fiscal 2017. While new growth averaged \$673,000 from fiscal 2014-2016, it's expected to decline to roughly \$400,000 in 2017. Wealth levels are strong with a median family income of \$120,301 (140% and 184% of the commonwealth and nation, respectively). Equalized value per capita is a robust \$171,098, double the US median. The unemployment rate of 3.5% (February 2016) remains below the commonwealth (4.7%) and nation (5.2%).

### Financial Operations and Reserves: Conservative Budgeting Has Improved Reserves

The financial position will remain stable given management's conservative budgeting which has increased reserves to levels more inline with the median for the rating category. Available General Fund balance (excludes nonspendable and restricted) increased annually from fiscal 2010 to 2015, and was \$8.7 million (14.5% of revenues) in 2015, up from \$3.9 million (7.3%) in 2010. Positively, the majority of fund balance remains unassigned (\$7.1 million or 11.9% in 2015).

Management reports that fiscal 2016 operations are trending positively and projects another surplus. The fiscal 2017 budget increased 3.8% over 2016 (net of contributions to stabilization funds), mostly due to an additional week of payroll and two new director positions, and was balanced with tax levy increase under the 2.5% limit and a minimal \$300,000 of free cash.

Swampscott is not reliant on economically sensitive revenues, as property taxes consistently account for approximately 75% of annual revenues. Current-year collections are strong, averaging 98% over the past four years. State aid, including aid for education, comprised 12.5% of 2015 revenues.

### LIQUIDITY

General Fund cash at the close of fiscal 2015 totaled \$12.2 million, or 20.3% of revenues.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

### Debt and Pensions: Manageable Debt and Pension Profile

The direct debt burden (1.4% of equalized value) will remain manageable over the near term due to limited future borrowing plans and a history of debt exclusions from Proposition 2 ½. Of the \$33.3 million in outstanding general obligation bonds, \$21.2 million (64%) is excluded from Proposition 2 ½. Near term borrowing plans include approximately \$2.3 million in June 2017. Over the medium term, the town will borrow to finance repairs to the three elementary schools. The exact cost is not known at this time and management is currently discussing options with the Massachusetts School Building Authority. The town will ask voters to exclude the debt from Proposition 2 ½.

#### DEBT STRUCTURE

All debt is fixed rate and amortization of principal is satisfactory with 72.2% repaid within ten years. Debt service costs of \$4.6 million in fiscal 2015 (net of a refunding) comprised 7.9% of expenditures.

#### DEBT-RELATED DERIVATIVES

Swampscott has no derivatives.

#### PENSIONS AND OPEB

Swampscott contributes to the Swampscott Contributory Retirement System, a cost-sharing multiple-employer defined benefit pension plan, for substantially all town employees with the exception of teachers and certain school administrators who are covered under the state plan. The town contributed the required \$4.5 million in fiscal 2015, equal to 7.8% of General Fund expenditures. The fiscal 2015 three-year average adjusted net pension liability (ANPL), under Moody's methodology for adjusting reported pension data, is \$78.3 million, or an average 1.3 times General Fund revenues and 3.3% of equalized value. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the town's reported liability information, but to improve comparability with other rated entities.

The town contributed \$2 million towards its annual OPEB cost in fiscal 2015, representing 30.1% of the cost and 3.5% of expenditures. The OPEB trust fund has a current balance of \$1.5 million and the adopted fiscal 2017 budget includes an addition of \$250,000. The total unfunded liability is \$97.9 million as of July 1, 2014.

Total fixed costs for fiscal 2015, including debt service, required pension contributions and retiree healthcare payments, represented \$11.1 million, or 19.2% of expenditures.

### Management and Governance

Massachusetts cities and towns have an institutional framework score of "Aa," or strong. Revenues are highly predictable due to a heavy reliance on property taxes. Cities and towns have a moderate revenue-raising ability given the Proposition 2 ½ levy limit. Expenditures primarily consist of personnel costs, as well as education costs for cities and towns that manage school operations, and are highly predictable given state-mandated school spending guidelines and employee contracts. Cities and towns have a moderate expenditure reduction ability given the high presence of collective bargaining contracts, offset by low fixed costs in most cases.

### Legal Security

The bonds are secured by a limited tax pledge as debt service is subject to the levy limitations of Proposition 2 ½.

### Use of Proceeds

The bonds will permanently finance \$1.7 million of bond anticipation notes payable June 24, 2016 and provide new money for various capital projects.

### Obligor Profile

The Town of Swampscott has a population of 13,900 and is located approximately 15 miles north of Boston (Aaa stable).

### Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

## Ratings

Exhibit 2

### Swampscott (Town of) MA

Issue	Rating
General Obligation Municipal Purpose Loan of 2016 Bonds	Aa2
Rating Type	Underlying LT
Sale Amount	\$3,699,890
Expected Sale Date	06/06/2016
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

© 2016 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody's.com](http://www.moody's.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1028549